

# **Taxation of Lodging in Washington State**

**A Staff Report to the  
Committee on Finance**

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## **Introduction and Summary of Options**

Tourism is big business in Washington State. According to a recent study by Dean Runyan Associates on the "Economic Impacts of Travel and Visitor Volume," domestic and foreign tourist spending in Washington totaled \$7.12 billion and directly generated \$1.46 billion in payroll and supported 93,900 jobs in 1993. The majority of travel expenditures (37.2 percent) are derived from tourist staying in hotels, motels and bed & breakfast establishments. The \$2.6 billion spent by lodging guests contributed \$494.4 million in payroll and 40,500 jobs to the Washington economy.

Businesses were not the sole beneficiary of increased domestic and foreign tourist spending in the state. In 1993, tourism-related tax revenue to counties and cities totalled \$97.3 million, up 9.7 percent from 1992. During the same period, tax revenue to state government was approximately \$390.2 million, up 8.5 percent from 1992.

The state of Washington is not alone in the taxation of lodging. A review of laws enacted by other states indicates a growing trend toward taxing of lodging to fund a variety of governmental activities. Information from a 1992 survey by the National Conference of State Legislatures showed that thirty-seven states impose a statewide sales tax on lodging, seventeen states impose a specific tax on lodging, forty-three states authorize local governments to impose a tax on lodging, and thirty-nine state impose both a state and local tax on lodging. Among states dedicating these tax revenues to particular uses, the majority dedicate a portion of the tax revenue to the promotion of tourism and tourist-related activities.

In an effort to assist local governments with their efforts to increase tourism, the state has created three separate lodging-related taxes. For the purpose of this report state and local retail sales taxes are mentioned, but are not discussed in detail.

Since 1967, when the state of Washington authorized the state-shared lodging tax to pay for bonds issued to construct a multipurpose stadium in King County, two other lodging-specific taxes have been adopted: the additional local option lodging tax and the state trade and convention center tax (imposed by the state only in King County). In 1994, local governments received \$17.4 million from state-shared lodging tax program and \$4.1 million from locally imposed lodging taxes. These revenues are used to support a variety of local tourism and tourism-infrastructure (convention centers, sports stadiums, arts and cultural facilities) activities.

## **Purpose of Report**

During a series of meetings in with representatives of the lodging industry, the cultural arts community, and local government the following concerns were expressed:

- \* The lack of definitions has led to confusion at the state and local level. This has resulted in legislation being introduced to make specific projects eligible for funding;
- \* The impact of increased lodging taxes on room occupancy rates;
- \* The need for more citizen and lodging industry input into funding decisions at the local government level; and
- \* The need to give local governments greater local discretion in the use of lodging tax revenues.

In 1995, the Washington State House of Representatives' Committee on Finance conducted a survey in response to these and other concerns. The purpose of the survey and resultant report is to provide: (1) To document taxes currently imposed on lodging room charges; (2) To document the distribution of lodging tax revenue and its use by local governments; (3) To investigate lodging taxes in other states; and (4) To suggest possible long-term lodging tax policy options. See Table 1-1 for a complete list of counties and cities that responded to the lodging tax distribution survey.

## **Summary of Options**

One of the stated purposes of the report is to suggest possible long-term lodging tax policy options. One of the requirements is that the options either build on existing investments in tourism and tourism infrastructure made by local governments or be flexible enough to respond to future activities without constant legislative changes. The specific options include:

- \* Development of a definition of what constitutes "tourism advertising and promotion" and clarification of the scope of activities eligible under that definition.
- \* Allow greater local discretion in the use of state-shared and local option lodging tax revenue.
- \* Require the creation of local lodging tax advisory boards to make recommendations for the use of lodging tax revenue.

- \* Require greater county-wide coordination of tourism-related activities funded with lodging tax revenues.
- \* Require pooled tourism development accounts for local jurisdictions within a counties that receive lodging tax revenue below a specific threshold.
- \* Dedicate a portion of the state retail sales tax on lodging to fund statewide tourism development activities.
- \* Allow a "reduced" state-shared lodging tax for local governments prohibited from imposing the state-shared lodging tax due to construction of the Kingdome.
- \* Reduce the state's retail sales tax rate on lodging.
- \* Establish a uniform rate for additional local option lodging tax in all local governments.

## **Report Contents**

This report is organized as follows: Chapter Two provides background information and a brief history of the state-shared lodging tax, the state trade and convention center tax, and local option lodging taxes. Chapter Three reviews the distribution and use of state-shared and local option lodging tax revenue in the state. Chapter Four provides an overview of lodging taxation and uses in other states. Chapter Five provides possible long-term lodging tax policy options.

**Table 1-1. Respondents to the Lodging Tax Distribution Survey**

<b>Counties</b>	<b>Cities</b>	<b>Cities</b>
Chelan County	Aberdeen	Olympia
Clallam County	Anacortes	<b>Pasco*</b>
<b>Cowlitz County*</b>	<b>Bellevue*</b>	Port Angeles
Ferry County	Bellingham	Port Townsend
Grant County	Blaine	Poulsbo
<b>Grays Harbor County*</b>	Centralia	Pullman
Island County	Clarkston	<b>Puyallup*</b>
Jefferson County	Dayton	Ritzville
Kittitas County	Edmonds	Sequim
Kitsap County	Ellensburg	Spokane
King County	Forks	Sunnyside
Lewis County	Ferndale	<b>Tacoma*</b>
Mason County	Friday Harbor	Toppenish
<b>Pierce County*</b>	Kelso	Tumwater
San Juan County	Kennewick	Union Gap
Skagit County	Lacey	Vancouver
Stevens County	Leavenworth	Walla Walla
Thurston County	<b>Long Beach*</b>	Wenatchee
Whatcom County	Moses Lake	<b>Westport*</b>
Yakima County	Mount Vernon	Winthrop

\* Indicates those jurisdictions that reported an additional local option lodging tax in 1994.

## Background

The beginnings of the state tax on hotel/motel lodging can be traced backed to 1955 (hereafter referred to as "lodging tax"). At that time, the state of Washington extended its 3.3 percent general retail sales tax on temporary lodging of less than 30 days (lodging longer than 30 days is considered leased housing and is not subject to retail sales taxation). The tax was based on the amount of the room charge and was scheduled to expire on July 1, 1957. In 1957, the temporary retail sales tax on lodging was made permanent by the Legislature.

Since 1955, the types of taxes imposed on room charges has evolved into two separate and distinct categories: The tax can be categorized as either: (1) A tax that is credited against the state's retail sales tax, therefore not an additional charge to the consumer; or (2) A tax that is an additional charge to the state retail sales tax on lodging and is an additional charge to the consumer.

### Description of Taxes Imposed on Lodging

There are five separate taxes that may be imposed on lodging. They are either imposed by the state or by local governments. For the purposes of this report state and local retail sales taxes are mentioned, but are not discussed in detail. Table 2-1 lists the types of taxes authorized to be imposed on lodging in Washington State.

**Table 2-1. Components of Taxes on Lodging in Washington State**

<b>Tax</b>	<b>Tax Rate (%)</b>	<b>Authorized to Impose</b>
Retail Sales Tax	6.5%	State
Local Retail Sales Tax	up to 1.7%	All Counties & Cities
State-Shared Tax	2.0%*	32 Counties & 126 Cities
Trade % Convention Ctr. Tax	7.0%**	State - Only in King Co.
Local Option Taxes	up to 5.0%	5 Counties & 13 Cities

SOURCE: Washington Department of Revenue Documents 11/95

\* The 2.0 % tax is credited against the state's 6.5% retail sales tax.

\*\* The tax rate is 7.0% in the city of Seattle and 2.8% in the remainder of King Co.

### State Retail Sales Tax

The state imposes a retail sales tax of 6.5 percent on all retail sales. All lodging is subject to the retail sales tax based on the charge for lodging at hotel, motels, rooming houses, private campgrounds, RV parks and similar facilities for continuous periods of less than 30 days.

### Local Retail Sales Tax

Similar to the state retail sales tax, all local governments may impose a local retail sales tax up to a maximum of 1.7 percent. The tax may be imposed on charges for lodging at businesses subject to state taxation.

### State-Shared Lodging Tax

First authorized in 1967, the state-shared lodging tax may be imposed by all local governments at a rate of 2 percent of the charge for lodging. The tax is deducted from the state retail sales tax on lodging so that the state-shared tax is not an additional charge to the consumer, but represents sharing of the state's retail sales tax revenue with local governments. The tax applies to charges for lodging at businesses subject to the state retail sales tax. Currently, 32 counties and 126 cities impose the state-shared lodging tax.

### State Trade & Convention Center Tax

First effective in 1982, the trade & convention center tax is a state tax that is imposed on hotels, motels and similar facilities within King County with at least 60 units. This tax applies only to lodging unit that is rented for less than a continuous 30 day period. The current tax rates are 7 percent in the city of Seattle and 2.8 percent throughout the remainder of King County. The tax is not credited against the state sales tax. Thus, this tax is an additional charge to the consumer. The proceeds of the tax are devoted solely to the state trade & convention center facility, located in the city of Seattle.

### Additional Local Option Lodging Taxes

Since 1982, the Legislature has authorized the imposition of numerous additional local option lodging taxes for specific purposes in counties and cities. These taxes range from 1 percent to a maximum of 5 percent of the charge for lodging. Similar to the State Trade and Convention center Tax, the additional local option taxes are not credited against the state sales tax and are an additional charge to the consumer. Currently, 5 counties and 13 cities are authorized to impose the additional local option lodging taxes. Table 2-2 shows the components of sales tax on lodging for local governments in King County.

## **Overview: Lodging Taxes in Washington State**

In 1967, the first state-shared lodging tax was authorized by the Legislature for AA counties (King County). The tax was imposed on a county-wide basis and used exclusively for sports stadium purposes. The rate was 2 percent on room rentals and a "credit" against the state sales tax was provided ("state-shared" lodging tax). The tax was used by King County to assist in the financing of a multi-purpose sports stadium (Kingdome). In 1968, King County sold bonds that will mature in 2012 and pledged the revenue from state-shared lodging tax pay off the bonds used to finance the Kingdome.

### State-Shared Lodging Tax Authorized in Tacoma and Spokane

In 1970, the Legislature expanded the state-shared lodging tax authorization to include cities over 150,000 population not located in AA counties. Only the cities of Tacoma and Spokane qualified as the actual language of the law precluded the city of Seattle from imposing the tax. At the time, the Legislature reasoned that since King County had already sold bonds to finance the Kingdome and pledged lodging tax revenues to retire those bonds, that the city of Seattle should not be authorized to impose the tax.

### All Cities and Counties to Impose State-Shared Tax

In 1973, the Legislature authorized all cities, towns, and counties to impose the state-shared lodging tax. This tax is a credit against the state sales tax on lodging. In addition, the eligible expenditures were also expanded from stadium facilities to convention centers.

### "Double Dipping Created"

After the Legislature authorized all cities, towns, and counties to impose the state-shared lodging tax in 1973, an issue termed "double dipping" occurred. Double-dipping occurs when the county imposes the 2 percent state-shared lodging tax in the unincorporated areas of the county as well as the city and an individual city also imposes the 2 percent state-shared lodging tax. This results in an additional 2 percent reduction in sales tax revenue to the state on lodging in the city. This has only occurred in the city of Bellevue and Yakima County.

In October 1974, the city of Bellevue imposed the state-shared lodging tax and pledged the revenues from the tax to bond redemption. Those bonds are scheduled to retire in 2005. Because King County had already imposed the state-shared lodging tax on a county-wide basis to pay bond debt on the Kingdome and because the 2 percent tax was a credit against the state retail sales tax, the state's portion of the sales tax on lodging was reduced by an

additional 2 percent in the city of Bellevue.

In the city of Yakima and Yakima County, a similar situation occurred. The city of Yakima imposed the state-shared lodging tax in April 1974. Yakima County also imposed the state-shared lodging tax in April 1975, within the city of Yakima and in unincorporated areas of Yakima County. In May 1975, the city and county entered into an agreement to construct a convention center facility in the city. The city subsequently issued general obligation bonds with pledged lodging tax revenues from both the city and the county.

#### Narrowing of the "Double Dip"

As a result of the "double dip," the Legislature enacted the first limitation on the state-shared lodging tax in 1975. Counties are now required to allow a credit against the state-shared lodging tax to cities that impose their own state-shared lodging tax. The Legislature allowed counties that imposed the tax to retire bonds issued prior to June 26, 1975, to not credit the full city tax against the county tax. Only the cities of Bellevue and Yakima qualified as continuing to receive credit because both jurisdictions had incurred indebtedness prior to June 26, 1975.

When the bonds on the Kingdome are paid off, any city within King County may impose the state-shared lodging tax and the county will have to provide a credit against the county's lodging tax for the full amount of the city tax. In Yakima, the "double dip" situation was altered in 1988.

#### Expanded Uses of the State-Shared Lodging Tax

In 1979, the Legislature authorized expanded uses for state-shared lodging tax revenues. The uses were expanded to include performing arts and visual arts facilities and tourism advertising and promotion.

#### First of the Additional Local Option Lodging Taxes

In 1982, two major events further changed the picture of lodging taxes in Washington. First, the Legislature authorized a state imposed tax to partially fund a state trade and convention center in the city of Seattle.

The tax is not a credit against the state sales tax and was imposed in multi-year stages, effective April 1, 1982 the state trade and convention center tax rate was 3 percent in the city of Seattle and 2 percent in King County. Effective January 1, 1983, the tax rate in the city of Seattle increased to 5 percent and remained at 2 percent in King County.

In addition, the Legislature authorized an additional local option lodging tax for the city of Bellevue to acquire, design, and construct a convention center. The city was authorized to impose the tax at a rate not to exceed 3 percent for this purpose. The tax is not a credit against the state sales tax.

The Legislature also required that the city of Bellevue conduct a study and investigate the desirability and economic feasibility of the proposed convention center before imposing the tax. Additionally, the Legislature prohibited the imposition of the tax on premises having fewer than sixty lodging units.

#### First Clarification of Uses of the "Surplus" State-Shared Lodging Tax Revenue in King County

In 1985, the Legislature authorized King County to use part of the proceeds from the state-shared lodging tax for improvements to the Kingdome. In 1968, when the voters of King County approved the Kingdome bonds, all of the revenues from the 2 percent tax were pledged to debt retirement until 2012. In addition, a property tax was imposed to offset any potential shortages in revenue from the state-shared lodging tax to pay debt service. The property tax levy was last imposed in 1982 because it was no longer needed to pay debt service. Since 1982, revenues from the state-shared lodging tax has been sufficient to pay debt service and actually, produce a surplus.

In 1985, the Legislature authorized King County to use any surplus revenues from the state-shared lodging tax not needed for debt service on the Kingdome to finance Kingdome capital improvements. The improvements authorized were a stadium restaurant, restroom facilities, artificial turf, seating facilities, parking facilities, a scoreboard and information system.

In 1986, the Legislature further clarified the use of the surplus revenue. Additionally, the Legislature: prohibited uses of property tax levies for debt retirement on the Kingdome, unless needed; ensured that if the Kingdome was sold to private persons, the debt must be retired immediately; authorized state-shared tax revenues in excess of \$5.3 million annually to be used solely for art and cultural museums; and prohibited uses of the state-shared lodging tax for operation of the Kingdome.

#### Uses of State-Shared Lodging Tax Revenue for Tall Ships and Tourism Expansion

The Legislature authorized expanded uses of the state-shared lodging tax revenue in 1986. The expansion included use of tax revenue for the construction of tall ships in a county bordering on Grays Harbor and for development of strategies to expand tourism in state-designated distressed

areas (generally, counties with an unemployment rate that is 20 percent higher than the statewide average for the previous three years).

#### State Trade & Convention Center Tax and Expanded Local Option Lodging Taxes

In 1987, the Legislature increased the state trade & convention center tax in King County by imposing a 40 percent surcharge, effective after October 1, 1993, on the existing tax rates. The new tax rates would be 7 percent in the city of Seattle and 2.8 percent in the remainder of King County. The surcharge was imposed to prevent a "net operating deficit" in the state trade & convention center.

Additionally, the Legislature authorized Pierce County and the cities in Pierce County to impose an additional local 2 percent lodging tax (not credited against the state sales tax) for the purpose of visitor and convention promotion and development. As of this date, Pierce County and the cities of Tacoma, Puyallup, and Fife have imposed the tax.

The Legislature also authorized Yakima County to use any surplus revenues from the state-shared lodging tax not needed for debt service for agricultural promotion facilities. The Legislature also authorized in King County an additional use for amounts above the \$5.3 million annual revenue threshold from the state-shared lodging tax. In addition to art and cultural museums, the arts and performing arts were added to allowable uses.

Finally in 1987, the Legislature restricted the uses for which the city of Bellevue could spend revenues from the optional 3 percent tax for a local convention center. The Legislature prohibited the city of Bellevue from using the money to construct a facility intended for a professional sports franchise if the county already uses revenues for a facility for a professional sports franchise.

#### Special Distribution of Excess Lodging Tax Revenue in King County

In 1991, the Legislature further detailed the distribution of state-shared lodging tax revenue in excess of \$5.3 million dedicated to bond retirement on the Kingdome. The Legislature required that 75 percent of the excess revenue be allocated to art museums, cultural museums, heritage activities and projects, the arts, and the performing arts. The remaining 25 percent must be allocated to stadium capital improvements, acquisition of open space lands, youth sports activities, and tourism promotion.

### Growth of Local Option Lodging Taxes

Since 1988, the Legislature has authorized additional local option lodging taxes and has significantly expanded the uses of revenues. The newer taxes are not credited against the state sales tax. Thus, these taxes increase the total amount paid by the consumer. See Table 2-3 for a chronological listing of all additional local option lodging taxes authorized by the Legislature through the 1995 legislative session.

## Table 2-2

### Sales Tax on Lodging in King County

Seattle 15.2%	Bellevue 14.0%	Other King County 11.0%
7.0% State Convention Center *	2.8% State Convention Center *	2.8% State Convention Center *
2.0% Kingdome **	3.0% Bellevue conv. center (addtl)	2.0% Kingdome **
1.7% Local Gov.	2.0% Bellevue conv. center **	1.7% Local Gov.
4.5% State Gov	2.0% Kingdome **	4.5% State Gov
	1.7% Local Gov.	
	2.5% State Gov	

The  
"Double  
Dip"

\* State Convention Center Tax is scheduled for reduction to 6% in Seattle and 2.4% outside Seattle. (Note: SB 5943 delays the reduction in rate until all bonds are repaid.)

\*\* The 2% Kingdome tax (which applies county wide) and 2% of the Bellevue convention center tax reduce the state sales tax.

**Table 2-3. Authorized Additional Local Option Lodging Taxes, 1982 - 1995.**

<b>Jurisdiction</b>	<b>Year</b>	<b>Maximum Rate (%)</b>	<b>Statute</b>	<b>Use of Funds</b>
Bellevue	1982	3.0%	RCW 67.40.100(2)	Convention center
Pierce Co. & its cities	1987	2.0%	RCW 67.28.182	Visitor & convention promotion
Ocean Shores & Westport	1988/1991	3.0%	RCW 67.28.260	Not specified, used for convention center
Yakima Co. & its cities <sup>1</sup>	1988	3.0%	RCW 67.28.240	Convention center
Spokane Co. <sup>2</sup>	1988	2.0%	RCW 36.100.040	Sports/entertainment facilities
Pasco	1993	2.0%	RCW 67.28.280	Agricultural center, including exhibition hall/convention center
Cowlitz Co. Helens	1993	2.0%	RCW 67.28.290	Rest areas for visitors to Mt. St.
Snohomish Co.	1994	2.0%	RCW 67.28.300	Any use authorized for other jurisdictions
Chelan	1995	3.0% (2.0% levied)	RCW 67.28.310	Tourist promotion
Leavenworth	1995	3.0% (1.0% levied)	RCW 67.28.310	Tourist promotion

**Table 2-3. Continued.**

<b>Jurisdiction</b>	<b>Year</b>	<b>Maximum Rate (%)</b>	<b>Statute</b>	<b>Use of Funds</b>
Wenatchee & East Wenatchee	1995	2.0%	RCW 67.28.310	Tourist promotion
Pierce Co. & its cities	1995	3.0%	RCW 67.28.182	Convention facilities & major destination tourist attractions
Seattle <sup>3</sup>	1995	2.0%	RCW 67.40.130	State convention center (implied)
Any public facility district	1995	2.0% <sup>4</sup>	RCW 36.100.040	Sports, entertainment or convention facilities

**NOTE:**

1. Currently only levied by the city of Yakima on January 1, 1996.
2. Levied by public facilities district; applies only to facilities with 40 or more units.
3. Tax becomes effective on January 1, 2000; receipts to be deducted from state retail sales tax, thus shifting impact to state general fund.
4. Can only be imposed if the combined total tax on lodging, including the 2 percent public facility district tax, does not exceed 11.5 percent.

**SOURCE:**

Washington State Department of Revenue -- Research Division / January 1996.

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## **Distribution and Uses of Lodging Taxes**

Nearly all local governments in the state of Washington are involved in the promotion of tourism. Many locations within the state serve as appealing travel destinations in their own right, for both Washington residents and out-of-state visitors. These areas accordingly consider tourism and recreation a primary industry.

While information on the distribution of lodging tax revenue is readily available through the Washington Department of Revenue, information on the use of the lodging tax revenue by counties and cities is not. For this report, a lodging tax survey was sent to the finance departments of selected counties and cities. The counties and cities were selected based on a geographic distribution and their annual amount of lodging tax revenue. The response rate was high. Twenty of 25 counties responded. The twenty counties accounted for 91.9 percent of all state-shared lodging tax distributions for calendar year 1994. Forty of 52 cities responded. The 40 cities accounted for 81.9 percent of all state-shared lodging tax distributions for calendar year 1994.

### **Effective Tax Rates on Lodging**

The effective state and local tax rates on lodging room charges are summarized in Table 3-1. State and local taxes on lodging are based on the percentage of the price of the room charge. The effective tax rates includes the state retail sales tax (6.5 percent), local retail sales tax (up to 1.7 percent), state imposed trade and convention center tax (7.0 percent in Seattle - 2.8 percent in the remainder of King County), and local option lodging taxes (up to a 5.0 percent in Pierce County - generally 2.0 to 3.0 percent in other areas of the state). Chapter Two of this report contains a complete description of taxes imposed on lodging.

The highest tax rates on lodging are in the city of Seattle at 15.2 percent. The lowest tax rates on lodging are in Klickitat County at 7.0 percent. Outside the major metropolitan areas of the state the average tax on lodging is 8 to 9 percent of the room charge.

**Table 3-1. Effective Tax Rates on Lodging Room Charges, 1995.**

Area	State Retail Sales Tax	Local Retail Sales Tax	State Conv. Center Tax	Local Option Tax 1	Total Lodging Tax 2
Seattle	6.5%	1.7%	7.0%	0.0%	15.2%
Bellevue	6.5	1.7	2.8	3.0	14.0
King Co. - remainder	6.5	1.7	2.8	0.0	11.0
Pierce Co.	6.5	1.3	0.0	2.0 3	9.8
Everett	6.5	1.7	0.0	2.0	10.2
Snohomish Co. - part	6.5	1.4	0.0	2.0	9.9
Kitsap Co.	6.5	1.4	0.0	0.0	7.9
Thurston Co. - part	6.5	1.4	0.0	0.0	7.9
Yakima City	6.5	1.4	0.0	3.0 4	10.9
Yakima Co.	6.5	1.1	0.0	0.0 4	7.6
Spokane City	6.5	1.5 5	0.0	2.0 6	10.0
Vancouver	6.5	1.1 7	0.0	0.0	7.6
Westport	6.5	1.4	0.0	3.0	10.9
Ocean Shores	6.5	1.4	0.0	3.0	10.9
Pasco	6.5	1.3	0.0	2.0	9.8
Longview	6.5	1.1	0.0	2.0	9.6
Cowlitz Co. - part	6.5	0.6	0.0	2.0	9.1
Klickitat Co.	6.5	0.5	0.0	0.0	7.0
Many other parts of state	6.5	1.3 8	0.0	0.0	7.8
Many other parts of state	6.5	1.0 8	0.0	0.0	7.5

- NOTES: 1. Does not include the basic state-shared tax, which is credit against state sales tax.  
2. Actual tax rate shown on the consumer's bill.  
3. Authorized to impose up to an additional 3 percent tax on lodging by 1995 Legislature.  
4. Authorized to impose up to 3 percent tax on lodging by the Legislature.  
5. The public facilities district imposes a 0.1 percent tax on lodging.  
6. The public facilities district imposes a 2.0 percent tax on lodging.  
7. Includes a 0.8 percent basic local option sales tax and 0.3 percent sales tax for transit.  
8. Full basic 1.0 percent local sales tax and with or without 0.3 percent transit tax.

### State Distribution of Lodging Tax Revenue

In the last ten years, the amount of revenue distributed to counties and cities, through the state-shared lodging tax program, has increased from \$7.7 million to over \$17.4 million (126.5 percent increase). The amounts do not include the local option lodging taxes that have been imposed by local jurisdictions or the state's trade and convention center tax that is imposed only in King County. Table 3-2, shows that the largest percentage increase in lodging tax revenue distributed to local governments occurred during the 1987 to 1991 period.

**Table 3-2. Distribution of Lodging Tax Revenue: 1985 - 1994**

<b>Year</b>	<b>Tax Distribution (\$)</b>	<b>Change from Previous Year (%)</b>
1985	7,722,976	-----
1986	8,105,048	4.9%
1987	9,469,958	16.8%
1988	10,867,312	14.7%
1989	12,422,554	14.3%
1990	13,934,817	12.1%
1991	15,539,962	11.5%
1992	15,847,755	1.9%
1993	16,476,651	3.9%
1994	17,497,195	6.1%

Source: Washington Department of Revenue  
N/A = Not Applicable

Table 3-3 shows the distribution of the state-shared lodging tax revenue by selected counties during the past 10 years. Appendix Table A-1 contains a complete distribution list of local governments that received state-shared lodging tax revenue during the 1985 - 1994 period.

**Table 3-3. Distribution of Lodging Tax Revenue by Selected Counties: 1985-1994**

<b>County</b>	<b>1985</b>	<b>1994</b>	<b>Percent Change 1985 - 1994</b>
Benton	\$ 130,378	\$ 412,281	+216.2%
Chelan	179,685	416,796	+131.0
Clark	130,939	295,707	+125.8
Franklin	80,915	150,605	+ 86.1
Grays Harbor	150,917	400,001	+165.0
Island	37,387	159,142	+325.6
King	4,012,157	8,849,753	+120.5
Okanogan	66,629	166,000	+149.1
Pierce	388,283	710,822	+ 83.0
San Juan	75,332	273,465	+263.0
Spokane	575,456	1,113,353	+ 93.4
Thurston	75,804	256,403	+241.4
Whatcom	136,330	442,474	+224.5
Yakima	600,530	727,352	+ 21.1

Source: Washington Department of Revenue - 9/95

## **Uses of Lodging Tax Revenue by Local Governments**

Local government use of lodging tax revenue is regulated by state law. Activities eligible for funding are tourism promotion and advertising, stadiums and related improvements, convention centers and similar facilities, fairs, festivals, visual and cultural arts and related facilities.

The following results are based on the results of the Committee's 1995 Lodging Tax Survey (See Appendix Tables C, D, E and F).

### **Tourism Promotion and Advertising**

Tourism promotion and advertising is the cornerstone of most tourism efforts at the local government level. This activity is usually in the form of a contract with a local chamber of commerce or visitor and convention bureau for in-state and out-of-state advertising.

Spending for tourism promotion and advertising is 12.4 percent of state-shared lodging tax expenditures and 36 percent of local option lodging tax expenditures (15.7 percent of overall expenditures). Cities spend a higher percent of their state-shared and local option tax revenue on tourism promotion and advertising (24.1 percent). Counties expend 9.6 percent on tourism promotion and advertising. It should be noted that if you remove King County from the county totals, their percentage of funds expended for tourism promotion and advertising increased from 9.6 percent to 29.3 percent of state-shared lodging tax revenue.

Counties used the state-shared and local option lodging tax revenue to fund 31 individual projects for tourism promotion and advertising. Cities used the tax revenue to fund 61 individual projects.

### **Stadiums and Related Improvements**

Since the construction of the Kingdome in 1967, the use of state-shared lodging tax revenue to either construct or make repairs to sports stadiums has increased. Counties allocated approximately 58.4 percent of total lodging tax revenue (state-shared and local option) to stadiums and related improvements. Cities allocated only 4.5 percent of their total lodging tax revenue to stadiums and related improvements.

Counties used state-shared and local option lodging tax revenue to fund 5 individual projects for sports stadiums and related improvements. Cities used the tax revenue to fund 10 individual projects.

### Convention Centers

Conventions have been traditionally viewed as a major component of tourism efforts for most areas. All major cities target their efforts to attract the national or international conventions. The state's trade and convention center in Seattle has been successful in getting a share of the national convention business. However, many medium- and smaller-sized cities are looking to attract conventions that are either regional or state-wide.

Cities provide a greater amount of assistance for the construction, expansion, or repair of convention centers. Counties allocated funding to one convention center project (0.73 percent of all lodging tax revenue). Cities provided funding to 14 individual projects (41.7 percent of all lodging tax revenue).

### Fairs, Festivals and Cultural Arts

The importance of fairs, festivals and cultural arts to an areas tourism efforts is now acknowledged. Events such as Seattle's Bumbershoot Festival, the Skagit Valley Tulip Festival, and the Omak Stampede are example of activities that bring tourist from all parts of the state, region, and the country.

Counties allocated 29 percent of their lodging tax revenue to support 48 activities. Cities allocated 14.9 percent of their lodging tax revenue to support 84 activities.

### Other Activities

Local governments use lodging tax revenue to fund numerous activities that do not fall into one of the above categories. These activities include, but are limited to funding of local business promotion programs, park improvements, public restrooms, and parking lot improvements used to support a tourist attraction.

In this category, counties allocated 2 percent of their lodging tax revenue to support 19 activities. Cities allocated 14.6 percent of their lodging tax revenue to support 43 activities.

Appendix C contains the information used in this chapter. Appendix D contains the tabulated totals for counties and cities. Appendix E and Appendix F contains individual survey responses for counties and cities.

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## Lodging Taxation in Other States

This chapter examines the taxation of lodging in other states. The information provides insight into the similarities and differences in Washington's tax treatment of lodging and use of tax revenue as compared to that of other states.

The taxation of lodging is not unique to the state of Washington. In the last 10 years, state and local governments in nearly every state have raised or imposed taxes on lodging. Thirty-seven states, including the state of Washington impose a state-wide sales tax on lodging. Seventeen states, including the state of Washington, impose a specific tax on lodging. Specific lodging taxes are usually imposed to finance tourism infrastructure projects with state-wide significance such as sports stadiums and trade and convention facilities.

### Imposition of Taxes on Lodging

Forty-three states, including the state of Washington, allow local governments to impose taxes on lodging. Thirty-nine state, including the state of Washington impose a tax on lodging and allow local governments to impose a tax on lodging. Table 4-1 summarizes state and local taxation of lodging nationwide.

**Table 4-1. Imposition of State and Local Taxation of Lodging**

	State Sales Tax on Lodging	Specific Lodging Tax	Allow Local Option Tax	Impose Both State & Local Tax on Lodging
Number of States	37	17	43	39

Appendix Table G-1 contains a detailed nationwide listing of only the state imposed taxes on lodging room charges in 1992. This table does not include taxes imposed by local governments.

The tax on lodging, which is actually the sum of state sales taxes, local sales taxes and additional room taxes, brings in a great deal of money to cities.

Facing a financial crunch, nearly every major city has raised lodging taxes, although the increases in state and local sales taxes also help explain the rapid growth in tax rates. Table 4-2 lists changes in the average local and state taxes on lodging in selected states.

**Table 4-2. Average Local and State Taxes in Selected States\***

State	1992 Average Rate (1992)	Change in Average 1988 - 1992
Alaska	7.40%	5.71%
Arizona	8.80	27.91
Colorado	11.76	4.53
Connecticut	14.00	86.67
Florida	9.32	22.15
Hawaii	10.00	11.11
Idaho	11.33	0.00
Minnesota	10.93	12.56
Montana	4.00	66.67
Nevada	14.05	9.34
New York	10.67	7.89
Oregon	6.92	0.00
Washington	10.38	6.46
Wyoming	6.67	17.64

SOURCE: Travel and Tourism Government Affairs Council, November 20, 1992.

NOTE: \* Includes state and local lodging taxes and sales taxes.

In 1994, the median tax rate on lodging in the top 50 travel destinations in the United States was approximately 12 percent. This ranged from a high of 15.75 percent in Columbus, Ohio to a low of 8 percent in Las Vegas, Nevada. With the exception of the cities of Seattle at 15.2 percent and Bellevue at 14 percent, the remaining counties and cities are below the median tax rate of 12 percent. Table 4-3 contains a listing of the lodging tax rates in selected cities.

**Table 4-3. The Total Lodging Tax in Selected U.S. Cities, 1994**

<b>City</b>	<b>Total Lodging Tax</b>
Columbus, Ohio	15.75%
Seattle, Washington	15.20
Houston, Texas	15.00
Los Angeles, California	14.00
Bellevue, Washington	14.00
Atlanta, Georgia	13.00
Dallas, Texas	13.00
Washington, D.C.	13.00
San Francisco, California	12.00
Yakima, Washington *	10.90
Spokane, Washington	10.00
Tacoma, Washington	9.80
Honolulu, Hawaii	9.00
Portland, Oregon	9.00
Las Vegas, Nevada	8.00

SOURCE: Meetings and Conventions, July 1994 & Table 3-1.

\* City of Yakima levied an additional 3 percent tax on lodging, January 1, 1996.

See Appendix Table G-2 contains a complete listing of the lodging tax rates for the top 50 travel destinations for 1994.

### **Use of Lodging Tax Revenue in Other States**

The use of lodging tax revenue in other states is varied. According to a 1992 survey by the National Conference of State legislatures, a majority of states considered lodging tax revenue as general revenue. Any special state lodging tax, such as the state of Washington's tax for the trade and convention center, is usually earmarked for tourism promotion, convention centers (construction, debt service and operation), other tourism-related capital improvements, and tourism or convention bureaus.

At least 17 states and Puerto Rico earmark the revenue from state-imposed lodging taxes. Tourism-related activities receive at least part of this revenue in the states of Alabama, Delaware, Idaho, Illinois, Louisiana, Montana, Nevada, Rhode Island, South Carolina, and Washington.

In several states, local governments receive earmarked lodging taxes. The states of Arizona, California, New York and Oregon give local governments

100 percent discretion in the use of lodging tax revenue. The states of Georgia, Texas, Virginia and Washington specify the uses of lodging tax revenue at the local government level. The states of Delaware, Louisiana and Michigan specify that local governments must use lodging tax revenue for tourism promotion; Delaware further specifies that a portion of the lodging tax revenue must be used for beach preservation.

Twenty-three states, including Washington, earmark lodging tax revenue that are imposed locally. In each state, at least a portion of the lodging tax revenue is used for tourism promotion activities such as promoting existing attractions or advertising to attract domestic and foreign visitors. Some states have used lodging tax revenue to expand "tourism infrastructure" -convention centers, sports stadiums, cultural facilities- to attract more tourist. See Appendix Table G-3 for a list of mandated uses in surveyed states.

While the tourism industry has viewed lodging taxes as a form of "user fees" to support tourism promotion and tourism infrastructure, there is growing concern that lodging taxes are being imposed to pay for things other than tourism-related items. In response to these concerns many state Legislatures are reassessing the taxation of lodging. Legislators in many states are now studying the effects of the money being spent as well as how much they can tax tourist before they start to drive them away.

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## **Options for the Future**

Washington's program of investing in "tourism promotion" and "tourism infrastructure" - convention centers, sports stadiums, cultural facilities - has been successful. In the ten-year period since 1985, the state-shared tax program has distributed over \$127 million in lodging tax revenue to local governments in support of these activities. This investment has resulted in increased domestic and international tourism to the state with increased tourism-related revenues to state and local jurisdictions.

While the results have been quite successful, there were several areas of concern expressed by representatives of the lodging industry and local jurisdictions. The concerns expressed were:

- \* The need for a definition of tourism to reduce the uncertainty of types of activities that are eligible for funding. This has resulted in request for legislative changes for specific projects;
- \* The high tax rate on lodging room charges and its potential impact on room occupancy rates;
- \* The need for a dedicated source of funding for state tourism activities;
- \* The need for more citizen and lodging industry input into the decision-making process regarding local project funding; and
- \* The need for greater local discretion in the use of lodging tax revenues.

Based on these concerns, the Committee may want to consider the following options:

### **Define "Tourism Promotion/Advertising"**

The lack of a definition of what constitutes tourism has led many local government attorneys to request changes in the state law to address a specific local project. What is needed is a general definition of tourism promotion/advertising that would provide guidance to local governments and still allow flexibility for funding specific activities.

### **Increase Discretion in Use of Lodging Tax Revenue**

The state would remove all state earmarking on the use of state-shared lodging tax revenue at the local government level. Local governments would be given greater discretion on these of this locally generated revenue. This approach is consistent with local government use of lodging tax revenue in most other states. This option would allow counties and cities to use the funds to meet locally determined needs and could include a specific set-aside for tourism-related activities.

### **Local Lodging Tax Advisory Board**

The state could require local governments to create local lodging tax advisory boards. The advisory board would make funding recommendations to the local legislative body on projects that receive lodging tax revenues. The advisory board would be appointed by the local legislative authority and be composed of persons associated with the lodging industry and other interested citizens. The state could limit the creation of the advisory board to those counties and cities with a population of more than ten thousand.

### **Greater County-Wide Coordination of Tourism Activities**

A variation of the local government lodging tax advisory board option would be to limit the establishment of county-wide advisory boards. This option recognizes that tourism is regional and that tourism promotion is most effective when promoted on a region-wide basis. The advisory boards could be a single county or group of counties and would make funding recommendations on lodging tax funded projects for the county or region and all cities within the county and region. All lodging tax revenue received by the county and cities within the county would be deposited into a pooled account. With the exception of funds committed to bonded capital projects, the funds would be used to fund eligible activities. The appointment of the advisory board members would be similar to the local lodging tax advisory board.

### **Local Pooled Tourism Development Accounts**

This option would require all cities, within a county, that receive less than a specific amount of lodging tax revenue to deposit their revenue into a county-wide pooled account. The funds in the pooled account would be used to fund eligible activities that promote tourism on a regional basis. The advisory board would contain representatives from the cities as well as the lodging industry and would make funding recommendations to the county legislative authority.

### **Dedicate Portion to State-Wide Tourism Development and Promotion**

In this option the state would earmark a portion of the 6.5 percent retail sales tax on lodging to support state-wide tourism development and promotion. The Department of Community, Trade and Economic Development would have a dedicated fund for the activities of its Tourism Development Division and Film and Video Office. This approach is similar to the model used in the states of Texas and South Carolina (Appendix Table G-3).

### **Allow Reduced or Limited "Double Dip"**

This option would allow those cities that are prohibited from imposing the state-shared lodging tax due to the county imposing the tax, the option of imposing a reduced state-shared lodging tax. This would address an equity issue that resulted from 1975 legislation that prohibited other cities in King County from imposing the tax until bonds for the Kingdome are paid off. The impact to the state is reduced revenue from lodging activities in King County.

### **Reduce State Retail Sales Tax Rate on Lodging**

Under this option the state could reduce the state's existing 6.5 percent retail sales tax rate on lodging. The amount of the reduction would be limited to an amount needed to cover the state's obligations under the state-shared lodging tax program.

### **Establish Uniform Local Option Lodging Tax Rate**

Under this option the state could establish a uniform state-wide local option lodging tax rate for all counties and cities. Currently several jurisdictions impose a local option lodging tax of 2 percent. There are several local jurisdiction that impose rates up to 3 percent that include Grays Harbor County and the cities of Westport and Bellevue. After the 1995 Legislative session, Pierce County and its cities were authorized to increase their local option lodging tax from the current 2 percent to a maximum of 5 percent. If the uniform tax rate was established at 5 percent, this would eliminate the need for counties and cities to request increases in the tax rate for the foreseeable future.